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Intshona - Koloni

MUNICIPALITY  
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VERW/REF:

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*Departement Finansiële Dienste  
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3 December 2010

[freeman.nomvalo@treasury.gov.za](mailto:freeman.nomvalo@treasury.gov.za)

The Deputy Director-General  
Office of the Accountant-General  
Private Bag X115  
**PRETORIA**  
0001

Dear Mr Nomvalo

**CONCLUSION OF THE REGULARITY AUDIT OF THE GEORGE  
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010**

The auditor's report of the Auditor-General on George Municipality has reference. See attached report, marked as Annexure "A".

We have communicated with the Business Executive : Western Cape regarding the unsatisfactory conclusion of the audit. See attached letter dated 30 November 2010, marked as Annexure "B".

We received a reply from Mr J Diedericks indicating that the Auditor-General cannot have a meeting with George Municipality. See attached letter dated 1 December 2010 marked as Annexure "C".

The purpose of our letter dated 30 November 2010 was to emphasize the need of a meeting to clarify unresolved issues and not an attempt to justify what happened during the audit.

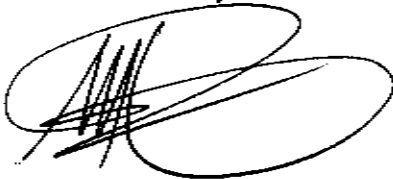
The conclusion in the response to our request dated 1 December 2010 however indicates that we need to elaborate on the conclusion of the audit. Our further comments on the letter dated 1 December 2010 received from the Office of the Auditor-General are attached hereto as Annexure "D":

As all material misstatements have been rectified/corrected in the 2009/10 Annual Financial Statement and as the Office of the Auditor-General is not prepared to accept the corrected Financial Statements your urgent intervention is needed.

The implications of an adverse opinion will have far reaching implications for George Municipality.

In the spirit of co-operative governance we appeal to the Accountant-General to afford us the opportunity to meet with the Auditor-General and to submit our already corrected 2009/10 Annual Financial Statements.

Yours faithfully

A handwritten signature in black ink, consisting of several overlapping loops and a final horizontal stroke, enclosed within a large, loopy oval shape.

**D G RAS**

**ACTING MUNICIPAL MANAGER**

G:\EX AUDIT 2009-2010\MANAGEMENT LETTER\FREEMAN NOM\VALO\conclusion of the regularity audit.doc

# **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GEORGE MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the George Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 6 to 84 and 91 to 94.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009)(DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements*, requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the George Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis for adverse opinion**

#### **Trade and other payables from exchange transactions**

8. Included in trade and other payables from exchange transactions disclosed in note 10 to the financial statements are retentions of R20,5 million. Supporting documentation could not be provided for tenders awarded around year-end to confirm the completeness of the retentions disclosure. The municipality's records did not permit the application of alternative audit procedures regarding the retentions. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of retentions.

#### **Revenue from exchange transactions: Service charges**

9. Included in service charges in note 18 to the financial statements is sale of electricity of R267 million. Supporting documentation could not be provided for R13,8 million of credit journals included in the total of sale of electricity. The municipality's records did not permit the application of alternative audit procedures regarding the sale of electricity. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence of service charges as it relates to the sale of electricity and consequently revenue from exchange transactions could be overstated by R13,8 million.

#### **Property, plant and equipment**

10. Contrary to SA Standards of GRAP, GRAP 17, *Property, plant and equipment*, land to the value of R55,8 million was recognised even though evidence could not be obtained that the land was registered in the name of the George Municipality or under the control of the municipality. Consequently, property, plant and equipment, as disclosed in note 7 to the financial statements, are overstated by R55,8 million.
11. The municipality recognised land to the value of R1,9 million, which was sold in the prior financial year during the 2009-10 financial year. This revenue should have been recognised in the prior financial year as required by SA Standards of GRAP, GRAP 9, *Revenue*. Had the land sale been recognised in the appropriate financial year, other income recognised for the year ended 30 June 2010 would decrease, other income recognised for the year ended 30 June 2009 would increase and net assets as at 30 June 2009 would decrease by R1,9 million.

## **Unauthorised expenditure**

12. Section 15 of the MFMA requires a municipality to incur expenditure only in terms of an approved budget and within the limits of the amounts appropriated for the different votes in an approved budget. Unauthorised expenditure totalling R9,3 million was incurred by the municipality as a result of overspending on the adjusted operating budgets for the civil and technical, community safety and financial services directorates. This amount was not disclosed in the notes to the financial statements as required by section 125(2)(e) of the MFMA.

## **Procurement and contract management**

13. Supporting documentation relating to seven bids awarded, totalling R76,4 million, could not be provided. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the compliance of these bids with the MFMA and Local Government: Municipal Supply Chain Management Regulation (SCM regulations) issued in *GNR.868 of 30 May 2005*, or the completeness of the irregular expenditure as disclosed in note 45 to the financial statements.

## **Irregular expenditure**

14. As a result of various instances of non-compliance with chapter 11, part 1 of the MFMA relating to supply chain management, SCM regulations and the George Municipality Supply Chain Management Policy (SCM policy), irregular expenditure to the value of R266 million was identified during the audit of procurement and contract management, which was not prevented or detected by the municipality's internal control activities. This amount was not disclosed in note 45 to the financial statements as required by section 125(2)(e) of the MFMA, resulting in irregular expenditure being understated by R266 million.
15. The instances of non-compliance can be summarised as follows:
  - SCM regulation 29(4): 17 instances totalling R161,3 million where members of the bid evaluation committee were also members of the bid adjudication committee.
  - SCM regulation 21: Two instances totalling R95,9 million where the bid documentation did not comply with the criteria set.
  - SCM regulation 46(2)(e): Two instances totalling R4,1 million where interest was not declared and the related party transactions were not adequately disclosed.
  - SCM regulation 27(2)(a): One instance to the value of R1,8 million where the specifications of the bid were drafted in an unbiased manner.
  - SCM regulation 28(1)(a): Two instances totalling R1,7 million where the tenders were not evaluated against the evaluation criteria set.
  - Section 117 of the MFMA: One instance to the value of R633 640 where councillors were involved in the evaluating and approving of the bid.
  - SCM regulation 19: One instances to the value of R550 000 where a competitive bidding process was not followed as it was incorrectly classified as an emergency procurement even though it does not meet the criteria for emergency procurement as set in SCM policy 36(1)(a)(i).

## **Non-compliance with the MFMA**

16. Contrary to the requirements of section 122(1) of the MFMA, the financial statements contained various material and pervasive disclosure, casting, cross-casting and transfer errors, which were not corrected during the audit, and which can be summarised as follows:
- The total column in the statement of changes in net assets does not cast by R117 665 741 as at 30 June 2010.
  - The purchase of property, plant and equipment disclosed under cash flows from investing activities in the cash flow statement for 2009-10 and 2008-09 does not agree to note 7 to the financial statements by R58 390 and R8 million, respectively.
  - The 2009-10 cash movement in the cash flow statement relating to receivables has not been split between exchange transactions and non-exchange transactions.
  - Impairment losses in note 32 to the financial statements differ by R10,7 million from that disclosed in note 29.
  - Differences have been identified in the recalculation of cash receipts from ratepayers, governments and others as disclosed in the cash flow statement. A difference of R15 million relates to the year ended 30 June 2010 and R7,5 million relates to the year ended 30 June 2009.
  - Revenue from non-exchange transactions amounting to R5 090 149 has been disclosed as revenue from exchange transactions within the statement of financial performance.
  - Provisions amounting to R3,7 million as disclosed in note 14 to the financial statements do not meet the definition of a provision and should have been disclosed as a current liability.
  - The adjustment to government grants of R3,5 million disclosed in note 39.6 to the financial statements should have been adjusted to net assets.

## **Related party disclosure**

17. The municipality has not implemented controls over the completeness of related party transactions in the financial statements. Accordingly, it was impracticable for me to extend my examination beyond the disclosures identified by management and those instances detected during the normal course of auditing. Consequently I am unable to satisfy myself as to the completeness of the related party transaction presentations in the financial statements. As reported in paragraph 15 of this report, two instances totalling R4,1 million were detected during the audit of procurement and contract management where interest was not declared and the related party transactions were also not adequately disclosed.

## **Material inconsistencies in other information included with the financial statements**

18. The actual income and expenditure included in appendix D to the financial statements for the 2008-09 financial year do not agree to the statement of financial performance by R37,5 million and R12,7 million, respectively and the actual income and expenditure for 2009-10 do not agree to the statement of financial performance by R19,8 million.
19. The net expenditure and income disclosed in appendix D(2) to the financial statements do not agree to the statement of financial performance by R25,6 million. Furthermore,

the properties line contains a cross-casting error, resulting in the net deficit being understated by R10 million.

20. The budget amount for revenue and expenditure disclosed in appendix E(1) to the financial statements do not agree to the section 71 reports received by R28,1 million and R3,5 million, respectively. Furthermore, this appendix contains a casting error, resulting in the total variance being understated by R23,9 million.
21. The quarterly receipts and expenditure disclosed in appendix F to the financial statements do not agree to the information provided to me during the audit by R50 million and R49 million, respectively, and consequently this amount cannot be substantiated.

#### **Representation by the accounting officer**

22. A representation letter confirming the responsibilities of the accounting officer, as well as representation on matters relating to, *inter alia*, accounting policies, accounting records and transactions, assets, liabilities and other matters such as representation on irregularities involving management, related party transactions, fraud and fraud prevention was not submitted for audit purposes by the accounting officer.

#### **Adverse opinion**

23. In my opinion, because of the significance of the matters described in the Basis for adverse opinion paragraphs, the financial statements do not present fairly the financial position of the George Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with the SA Standards of GRAP and in the manner required by the MFMA and DoRA.

#### **Emphasis of matters**

I draw attention to the matters below. My opinion is not modified in respect of these matters

#### **Restatement of corresponding figures**

24. As disclosed in notes 39 and 40 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered during the 2008-09 financial year in the financial statements of the George Municipality at, and for the year ended, 30 June 2009.

#### **Casting errors in the financial statements**

25. The financial statements, as well as the appendices to the financial statements contain various casting, cross-casting and transfer errors in addition to the matters highlighted in the Basis for adverse opinion paragraphs. As these differences were not material, the municipality decided not to rectify these differences, as it considered the exercise to be time-consuming and that the benefit of reconciling these errors outweighed the cost to perform such an exercise.

### **Material under spending of the budget**

26. As disclosed in appendix E(1) to the financial statements, the municipality has materially under spent by R37,3 million on the capital expenditure budget and by R48,4 million on the operating expenditure budget. The under spending on the capital expenditure budget is primarily to civil and technical services as a result of a delay on the emergency sewerage water recycling pipeline due to the unavailability of funds as certain of the projects were planned to be financed from reserves. The under spending on the operating expenditure budget is primarily related to planning and housing as a result of a delay in the building of the top structures for low cost housing.

### **Additional matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Unaudited supplementary schedules**

27. The supplementary information set out on pages 85 to 90 and 95 to 113, does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

28. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations: MFMA, DoRA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Local Government: Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998), and financial management (internal control).

#### **Predetermined objectives**

#### **Non-compliance with regulatory and reporting requirements**

##### **Local Government: Municipal Systems Act, 2003**

##### ***Lack of effective, efficient and transparent systems and internal controls regarding performance management***

29. The municipality had not implemented adequate mechanisms, systems and processes for the monitoring and review of, and reporting on, predetermined objectives, as required by the sections 40 and 41 of the MSA. A performance management system was developed for implementation during the 2009-10 financial year, but was not adequately implemented to ensure accurate and complete reporting on predetermined objectives.



### **Usefulness of reported performance information**

30. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit finding relates to the above criteria:

#### ***Lack of reporting on all predetermined objectives in the annual performance report***

31. Six indicators and targets, for the selected objectives, were set in the integrated development plan and the service delivery and budget implementation plan for the 2009-10 financial year, but were not reported on in quarterly reports and consequently also not reported on in the annual performance report.

### **Reliability of reported performance information**

32. The following criteria were used to assess the reliability of the planned and reported performance:

- Occurrence: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria:

#### ***Reported indicators not reliable as no supporting source information was provided***

33. For the selected objectives the occurrence, accuracy and completeness of 25% of the reported key performance areas and related indicators could not be established as sufficient appropriate audit evidence and/or relevant source documentation could not be provided for audit purposes.

## **Compliance with laws and regulations**

### **Local Government: Municipal Finance Management Act, 2003**

34. The mayor did not submit the third quarterly report on the implementation of the budget and financial state of affairs of the municipality within 30 days of the end of the quarter to council as required by section 52(d) of the MFMA, as it was submitted only in June 2010.
35. The documents referred to in section 75(1) of the MFMA were not placed on the George Municipality's website within five days after tabling it in council as required by section 75(2) of the MFMA and certain of the documents, e.g. the annual and adjusted budgets, service delivery agreements and quarterly reports were not available on the website at all.
36. Sufficient appropriate audit evidence could not be obtained to enable me to confirm compliance with section 27 of the MFMA which requires the Mayor to report to the council, the member of the executive council (MEC) for finance and the National Treasury upon becoming aware of instances of non-compliance with applicable legislation.

## **INTERNAL CONTROL**

37. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, DoRA, MSA and Local Government: Municipal Structures Act, 1998, but not for the purpose of expressing an opinion on the effectiveness of internal control.
38. The matters reported below are limited to the significant deficiencies regarding the basis for adverse opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

## **Leadership**

39. Actions are not in all instances taken to address risks relating to the achievement of complete and accurate financial reporting. Although the municipality has developed financial management improvement plan to address the findings raised during the audit of the 2008-09 financial year, this plan only address the findings and not the internal control deficiencies giving rise to these findings. Furthermore, the action plan was not implemented during the 2009-10 financial year and resulted in a lack of focused leadership oversight over corrective actions being taken. The leadership focus was also on resolving the findings that gave rise to a qualified opinion on the 2008-09 financial statements, resulting in other lapses in accurate financial reporting and maintenance of sufficient appropriate evidence to support the disclosures in the financial statements and a lack of commitment to quality in financial reporting. This situation was further exacerbated by the suspension of the municipal manager, chief financial officer and other senior managers for the last four months of the financial year.
40. Due to a lack of leadership oversight, the systems relating to reporting on predetermined objectives were not adequately implemented and the results of the monitoring process were not routinely communicated to all managers and staff to ensure that employees at all levels of the municipality understand their responsibility with regard to collecting and

collating information for the report on predetermined objectives. This has resulted in data collection for reporting on predetermined objectives not being implemented, resulting in incomplete and inaccurate reporting. Actions were also not in all instances taken to address risks relating to the achievement of complete and accurate performance reporting as action plans were not adhered.

41. The accounting officer did not adequately exercise oversight responsibility over compliance with laws and regulations. This is evidenced by the extent of non-compliance reported in relation to procurement and contract management and compliance with the MFMA. The municipality's financial management improvement plan did not adequately address compliance with laws and regulations.

### **Financial and performance management**

42. Pertinent information is not identified and captured in a form and time frame to support financial reporting. Significant delays were experienced in obtaining sufficient appropriate audit evidence to substantiate the disclosures in the financial statements. In certain instances the required evidence was still outstanding at the date of this report, as described in the Basis for adverse opinion paragraphs. The financial statements were also not adequately reviewed for completeness and accuracy prior to submission for audit. This resulted in material and pervasive misstatements in the financial statements, as well as other errors in the financial statements such as casting and transfer errors. This, especially the latter, could have been prevented had regular financial statements been produced for review by internal audit.
43. Adequate processes have not been implemented to ensure that the report on predetermined objectives is accurate and complete and that the actual performance reported in the annual performance report is adequately supported by sufficient appropriate evidence.

### **Governance**

44. The risk relating to the achievement of financial and performance reporting objectives had not been identified by management to inform the focus of the internal audit plan. Internal audit has consequently not placed adequate focus on the systems and processes supporting accurate and complete financial reporting. The financial management improvement plan was also not adequately monitored by the audit committee to confirm compliance with the actions identified in the plan.
45. Although internal audit performed reviews on the quarterly performance reporting, these reviews did not extend to the systems and processes underlying performance reporting. The risk of inaccurate and incomplete performance reporting has not been identified by management to inform the focus of the internal audit plan in this regard.
46. Risks relating to procurement and contract management and compliance with laws and regulations that were identified during the risk assessment process were not adequately addressed in the internal audit plan.

## OTHER REPORTS

### Investigations in progress

47. A forensic service provider performed an investigation into supply chain management at the George Municipality throughout the year following which certain senior official were suspended. As a result of the suspension of those senior officials of the George Municipality during the financial year, the special investigations unit (SIU) is presently performing an investigation into the procurement and contract management of certain tenders awarded. The results of this investigation are unknown at the date of this report.

*Auditor - General*

Cape Town

30 November 2010



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

Dr C Kapp

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*Departement Finansiële Dienste*  
*Department Financial Services*

30 November 2010

Mr Justin Diedericks  
Business Executive : Western Cape  
The Auditor-General of South Africa  
Private Bag X1  
**CHEMPET**  
7442

Sir

**CONCLUSION OF THE AUDIT OF THE REGULATORY AUDIT OF THE  
GEORGE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010**

Thank you for your letter dated 24 November 2010 and subsequent draft audit report received 30 November 2010 in the above regard. Unfortunately, I cannot accept your conclusion due to:-

- Break down in communications between the appointed auditors (Deloitte) and the George Municipality;
- Deviations from the previous versus the current process;
- Software deficiencies; and
- Capacity difficulties experienced.

**Breakdown in communications**

The officials in the Finance Department had regular meetings with members of the appointed auditors (Deloitte) where issues were discussed and resolved. At various meetings the officials from the Finance Department urged the auditors to

indicate whether there are any unresolved issues. Upon receipt of the draft management letter dated 9 November 2010, received 15 November 2010 and discussed on 17 November 2010 a number of issues were still outstanding.

These related to areas where the municipality has responded to communication of audit findings (COMAF's) but received no response from the auditors.

No responses were received from the auditors on issues where they and financial officials differed on interpretation, for example, the various COMAF's issued up to 26 October 2010 regarding irregular expenditure as a result of non-compliance with procurement regulations. In these cases, officials of the Bid Evaluation Committee attended the meeting of the Bid Adjudication Committee to supply information on request by the members. They did not participate in the proceedings of awarding tenders and did not vote on any matters. George Municipality believes that the prescribed procedure is appropriate. The auditor regards it as a deviation from legislation. No clarity or feedback was received from the auditors. George Municipality has requested a legal opinion on this matter. No opportunity was afforded to respond.

The draft management report was received on 15 November 2010, discussed on the 17 November 2010 with a deadline to respond by 17H00 on 19 November 2010.

COMAF 207 was only listed as part of the summary of uncorrected disclosure deficiencies with the letter received on 24 November 2010. Several issues were raised for the first time as part of COMAF 207.

### **Deviations from previous processes**

During the 2009 audit a meeting between the Auditor General, Ms Liezl Klue-Knipe, Ms Susan Louw from Deloitte and Senior Financial Officials of the Finance Department was held on 10 November 2009 to resolve outstanding issues followed by a further meeting on 24 November 2009. Only one meeting was held on 17 November 2010 during the 2010 audit. The deadline for the outstanding issues and corrections was 19 November 2010. This is not in line with section 40 of the engagement letter.

Furthermore, it needs to be noted that George Municipality received 60% of the issued COMAF's during the last week of the audit on site (19 – 27 October 2010).

### **Software deficiencies**

Most of the Municipalities in the Western Cape, including George Municipality, uses Case-Ware to produce their financial statements. When the Finance Officials submitted a PDF File extract from Case-Ware on 25 November 2010 the file was distorted due to software difficulties.

### **Capacity difficulties**

At the beginning of the audit, it was pointed out to the Auditors that the George Municipality has suspended its Chief Financial Office (CFO) and one of its deputy CFO's. Due to the pending hearings and outcomes, it was not possible to replace these important officials. This unfortunately placed pressure on the remaining officials to cope with the workload. We are however satisfied that they gave there full support to the Audit Team from Deloitte.

### **In view of the above the George Municipality requests:-**

A meeting with the Auditor General to clarify unresolved issues and present answers on outstanding COMAF's.

Extension of the audit deadline to 15 December 2010 to rectify mutually agreed upon outstanding issues. Officials of the Finance Department have already resolved the majority of the issues and corrected the Financial Statements.

Trust that you will find the above in order.

Yours faithfully



**Ed. DG RAS**

**ACTING MUNICIPAL MANAGER**

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AUDITOR - GENERAL  
SOUTH AFRICA

The Accounting Officer  
P.O. Box 19  
George  
6530

1 December 2010

Reference : 03834REG09/10

Dear Mr Ras

**CONCLUSION OF THE REGULARITY AUDIT OF THE GEORGE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010**

1. Thank you for your letter dated 30 November 2010. Please find below my response to your letter which I hope would address your concerns.

**Breakdown in communication**

2. Your concern has been noted and I acknowledge that communication between yourselves and the auditors is of extreme importance.
3. Regular meetings were, however, held between yourselves and the auditors, during which outstanding communication of audit findings (ComAFs) and requests for information (RFIs) were discussed. The ComAF register containing all outstanding responses and unresolved matters was sent to Mr Cupido on a daily basis. This register contained the status of each ComAF issued, as well as an indication of whether the management response/information submitted was acceptable or not. \*
4. It was also communicated to management at the weekly meeting held on 8 October 2010 that the audit responses would be documented in the draft management report upon which management would have an opportunity to provide further responses/information.
5. The issues pertaining to procurement were discussed with management in detail in the weekly meeting held on 22 October 2010.
6. With regard to the ComAFs specifically relating to the irregular expenditure arising from the audit of procurement and contract management, the following dates are noted:

ComAF no.	Date issued	Date response received
081	20 October 2010	01 November 2010
084	19 October 2010	01 November 2010
094	19 October 2010	03 November 2010
096	19 October 2010	01 November 2010



<b>ComAF no.</b>	<b>Date issued</b>	<b>Date response received</b>
174	26 October 2010	01 November 2010
175	26 October 2010	01 November 2010
176	26 October 2010	22 November 2010
193	26 October 2010	10 November 2010

7. Bearing in mind that the audit team left George on 28 October 2010 for Cape Town, they would not have had the opportunity to discuss the majority of the abovementioned responses received from yourselves during the weekly meetings, as all of them except for one were received after they had left George.
8. It is also important to note that, except for the responses to ComAFs 136, 174, and 175, the responses received from the George Municipality were after the five days as allowed per paragraph 40 of the engagement letter.
9. I would like to point out that the draft management report, which contained all the findings, auditor's conclusions and mapping of the findings to the impact on the audit report, was sent to Mr Ras via e-mail on 10 November 2010, and not 15 November 2010 as indicated in your letter. This report contained the auditor's conclusions or clearly indicated where responses from the municipality were still outstanding.
10. The deadline to respond, which was agreed with you in the meeting held on 17 November 2010, was set for 22 November 2010 for responses to outstanding ComAFs, and 19 November 2010 for the revised annual financial statements. This allowed you 12 days to respond to outstanding matters and to question any responses from the auditors from the date on which the first draft management report was issued.
11. I would also like to confirm that, in the meeting held on 17 November 2010, you confirmed our interpretation of the irregular expenditure and that you indicated that no further discussion of these matters should follow.
12. ComAF 207 was issued as a result of the numerous misstatements found on the revised financial statements that were received from the municipality on 19 November 2010. An e-mail was sent to Ms Andrias on 1 November 2010 by the audit team, requesting a revised set of annual financial statements, which was only received on 19 November 2010 as mentioned above. Had a set of revised financial statements been submitted to the audit team on or around 1 November 2010 as requested, many of the misstatements noted in ComAF 207 would probably have been resolved successfully before the final deadline date.

#### **Deviation from previous process**

13. As mentioned above, the deadline which was agreed with you in the meeting held on 17 November 2010 was set for 22 November 2010, which allowed you 12 days to respond to the management report which was sent via e-mail on 10 November 2010.
14. I agree that many of the ComAFs were received from middle to late October 2010. However, this still allowed the municipality approximately three weeks to respond to the ComAFs.

#### **Software deficiencies**

15. I take note of the difficulties that you have been experiencing with Case-Ware and would like to urge you to proactively take the necessary steps to resolve these issues

14. I agree that many of the ComAFs were received from middle to late October 2010. However, this still allowed the municipality approximately three weeks to respond to the ComAFs.

#### **Software deficiencies**

15. I take note of the difficulties that you have been experiencing with Case-Ware and would like to urge you to proactively take the necessary steps to resolve these issues before the deadline for submission of the 2010-11 financial statements and the ensuing audit.

#### **Capacity difficulties**

16. I take note of the difficulties that you have been experiencing given the suspension of the chief financial officer (CFO) and one of the deputy CFOs. Notwithstanding this, I believe that we afforded the municipality every opportunity to respond to the RFIs and ComAFs. Responses were accepted even when provided after the agreed deadlines.
17. Moreover, I would like to point out that where difficulties were experienced by audit team in obtaining information, this was not limited to the areas for which the individuals in acting positions were responsible.

#### **Conclusion**

18. Based on the afore-mentioned, which includes representations from Deloitte, I am comfortable that the audit process was handled in accordance with the engagement letter. Furthermore that in many instances Deloitte allowed the municipality to exceed these agreed timeframes in the engagement letter in terms of providing responses.
19. I am compelled to comply with the requirements of section 126(3) of the Municipal Finance and Management Act (Act No. 56 of 2003) and consequently cannot accede to your request to extend the audit deadline.

Yours sincerely



Justin Diedericks  
Business Executive: Western Cape

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#### **Distribution:**

The Executive Mayor: Mr B Petrus  
Acting Chief Financial Officer: Mr M Cupido

**CONCLUSION OF THE REGULARITY AUDIT OF THE GEORGE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010**

**3.**

It needs to be stated that no discussion was held whether the response to a COMAF was acceptable or not.

**6 & 7.**

It was never our intention to refute the fact that some of the COMAF's were not responded to within the timeframe. We also did not expect the auditors to respond to all COMAF's while on site seeing that 120 COMAF's were issued in the last week. We did not have a problem with that. We absorbed the extra load that this created and did our best to get as many responses back to the auditors as soon as possible.

The COMAF's relating to the irregular expenditure was simply used as an example of an outstanding issue that needed to be addressed. Was it not possible for someone at the Office of the Auditors-Generals or Deloitte to reply to the responses we have given to COMAF 81, 84, 94, 96, 174, 175 and 176 for example? That would have put us in a position to add the necessary notes in the Annual Financial Statements (AFS) if needed be.

We expected the auditors to have a meeting with us before leaving the premises to at least give us an indication of the timeframe going forward. Although this did not happen we expected that there would be further communication regarding the audit. At that stage we were quite optimistic that the audit would go off well.

**9.**

We indicated in our letter that during the 2008/9 audit we had a meeting with the auditors on the 10 November 2009. This year an e-mail was sent through to the Acting Municipal Manager on 10 November 2010.

The issue is not whether the Auditor General did or did not indicate that a response to a COMAF was outstanding. The issue is that the Auditor General did not reply to several of our responses to the COMAF's leaving us under the impression that the Auditor-General was satisfied with our responses.

**12.**

It should be mentioned that the Auditors only listed misstatements regarding the appendices in COMAF 207 issued 24 November 2010, although the appendices were

included in the first set of financial statements handed over to the Auditors.

**13.**

The timelines are in correct. The e-mail with draft audit report was received 10 November 2010 at 22h00. From 11 November 2010 to the deadline of Friday afternoon, 19 November 2010, gives you 7 days. At that stage there was a list of unresolved COMAF's. The following are examples 107, 71, 77, 99, 55, 118, 117, 16, 105, 195, 93, 196, 98, 70, 78, 182, 121, 88, 108 - RFI 's 59, 58. The deadline was set at the first +and only meeting held regarding the draft audit report on 17 November 2010.

**14.**

We want to reiterate the fact that responding to the ±120 of the 200 COMAF's received in the last week is not the issue. The issue was the resolving of COMAF's responded on.

**16. & 17**

We did not include the issue of capacity difficulties in an attempt to produce an excuse. No, this was simply to instil a sense of the prevailing circumstances. It must be noted that preparing financial statements was a team effort and that the majority of the personnel have numerous other functions other than assisting with the financials.